

Pursuant to Section 21.811, RSMo, the Joint Committee on Tax Policy shall review and analyze the local property tax assessment practices of this state and make recommendations to the general assembly based on its findings. The committee must submit a final report by June 30, 2006. The committee is required to report to the State Tax Commission any concerns it finds regarding the state's assessment practices as outlined under chapter 137, RSMo. The following report is intended to satisfy these statutory requirements.

The Assessment Process

The most stable and reliable source of revenue for schools and local governments in Missouri is the property tax. In 2004, local governments received 4.9 billion dollars in property tax revenues.¹ A county assessor is elected or appointed to carry out the function of assessing parcels of property in each respective county. The assessor of each county is responsible for basing their assessment on “true value of money,” synonymous with the fair market value of the property, except agricultural property where the true value is based on the productive use of the land.²

There are four types of property. Each type of property has a different assessment percentage or rate that is charged to the type of property. For residential property, a rate of 19% is charged. Agricultural property is taxed at a rate of 12%. Utilities and commercial property are taxed at a rate of 32%. And personal property is taxed at a rate of 33.33%.³

Once an assessment is determined, the property tax is calculated. This calculation is as follows:

$$\text{Assessed Value} \times \text{Assessed Rate} \times \text{Applicable Tax Rate} = \text{Tax on Property}$$

To further illustrate the application of the property tax calculation, an example using real numbers is as follows. The value of a residential parcel of property is \$100,000. The assessed rate for residential property is 19%. The applicable tax rate levied by the local government is \$6.00 per \$100 of assessed value. The equation is:

$$\$100,000 \times 19\% \times .06 = \$1,140$$

The owner of the property would have a resulting property tax liability of \$1,140.⁴

Methods for Determining the Value of Property-

Assessors can use three different methods for determining the value of property: the cost approach, the market approach, and the income approach. For the cost approach, the assessor first estimates the value of the land as if it were vacant. The assessor then adds the amount it would take to replace the existing structure with one of similar construction and amenities, including current costs of materials and labor, profit, overhead, permit fees, and the like. If the structure is not new, the assessor then applies depreciation from all causes and then subtracts that amount from the calculation of replacement cost.

In the market approach or sales comparison approach, the property is evaluated by comparing similar properties that have recently sold. Adjustments may be made for differences such as a garage, finished basement, or better location of those comparable properties. This can be the most reliable approach for residential property where there are frequent sales as well as similarities in properties.

Using the income approach, the assessor first estimates potential gross income from rentals, then subtracts an amount for vacancies and operating expenses. The amount of net income is then converted to a value for the property using a process called capitalization. The income approach is primarily used for apartments, shopping centers and office buildings.⁵

Reassessment will often give political subdivisions substantially more money every two years due to the increase in the value of the property. If this should occur, political subdivisions are required to rollback their tax rates.

Rollbacks

A rollback is an adjustment of the tax rate downward. The allowed increase in tax revenues over the previous year for cost of living was 2.3% in 2004 (there is a maximum of 5% allowed). After this allowance, and that for new construction during the previous year, the tax rates must be reduced to offset the valuation increase.

The constitutional requirement of a vote by the people for a tax increase was part of the Hancock Amendment. Modeled after a Michigan law and named after Springfield businessman and later U.S. Congressman Mel Hancock, the Hancock Amendment imposes strict guidelines for the amount of revenue that Missouri state and local governments can collect. A substantial increase in the revenues collected from property taxes by local subdivisions shall not exceed the previous year's revenue in-take while adjusting for both new construction in the political subdivision and subsequent percentage increases in the General Price Level.⁶ There are, however, different interpretations of how and when the rollbacks should be administered.

A hypothetical example may provide a better understanding of the explanation. A local subdivision levies a tax of sixty cents for every \$100 of assessed property in year one. In year one, the local subdivision has a total residential property value of one billion dollars (residential property value is used in this case for simplification so the standard 19% rate can be used). The calculation would then be:

$$\$1,000,000,000 \times .19 \times .006 = \$1,140,000$$

Two years later the same property is reassessed. A different value is obtained because the residential property throughout the local subdivision has increased in value. In year three, the same residential property value that was assessed in year one is now worth \$1.1 billion in year three, not including new construction. The local subdivision levies the same sixty cents per every \$100 of assessed value as it had done two years prior. The calculation in year three would be:

$$\$1,100,000,000 \times .19 \times .006 = \$1,254,000$$

However, the Hancock Amendment limits the amount that a local subdivision can increase its property tax revenues to the percentage of increase in the General Price Level. From year one to year three, the consumer price level increased by 3.5%. The amount of increase in the property value for the local subdivision in question between years one and three was 10%. The local subdivision, by charging the same sixty cents per every \$100 of assessed value, collected a 6.5% excess in taxes. To keep in line with Missouri Constitutional mandates, the local subdivision should only increase their revenue by the 3.5% allotted by the increase in the General Price Level; essentially, they should only collect \$39,900 more than in year one, bringing their year three total to

\$1,179,900. To calculate the rate per every \$100 of assessed value that they should have charged, a simple algebraic equation can be used to provide an answer:

$$\$1,100,000,000 \times .19 \times R = \$1,179,900$$

$$R = \$1,179,900 / (\$1,100,000,000 \times .19)$$

$$R = .00564545$$

The local subdivision should have rolled back their rates to about 56.5 cents per every \$100 of assessed residential property to keep in line with the General Price Level. The levy of sixty cents per every \$100 of assessed property is essentially a tax increase.

The Appeal Process-

If the property owner should disagree with an assessment, he or she may make an appeal. The first form of appeal, an informal appeal, occurs when the property owner requests a meeting with either the county assessor or an assessor in the county assessor's office to discuss how the assessment was conducted and how the office valued the property. Many of the disagreements are resolved at this level. If the property owner is still dissatisfied, following the informal meeting, the property owner can appeal to the county board of equalization. A hearing will be scheduled where the board will hear evidence from the assessor and the property owner regarding the value of the property which is the subject of the appeal. If still dissatisfied with the decision rendered by the board of equalization, the property owner has a right to appeal to the State Tax Commission (STC) by August 15 in first class counties or St. Louis City, and September 30 in other counties or 30 days after the final action of the board of equalization, whichever date is later.⁷

The State Tax Commission: its Organization, Functions, and Processes

The State Tax Commission is the executive agency which administers the laws relating to property tax assessment. Created in 1945, the State Tax Commission obtains its authority from Article X, Section 14 of the Missouri Constitution and additionally from Chapters 137, 138, 151, 153, and 155 of the Revised Statutes of Missouri.

The Commission itself is made up of 3 members appointed by the Governor with the advice and consent of the Senate. The members serve staggered terms of six years with one member being appointed every two years. In order to perform the six basic functions assigned to the Commission, the STC has divided their staff into five sections. These sections include: Administration, the Legal section, the Ratio Study section, the Original Assessment section, and the Technical Assistance section.

The 6 basic functions performed by the STC include:

1. Equalize both intercounty and intracounty assessments
2. Conduct de novo judicial hearings regarding valuation and classification appeals from local boards of equalization in individual assessment cases
3. Formulate and implement statewide assessment policy and procedures to comply with Constitutional and statutory mandates
4. Supervise local assessing officials and programs to ensure compliance with statewide policy
5. Conduct ratio studies to determine the assessment level in each county and measure the quality of the assessment program
6. Assess the distributable property of railroads and utilities

While it is the duty of each county's assessor to assess the properties within his or her own county, it is the duty of the STC to assist the assessors with their duties and ensure that the assessor makes a fair assessment of each parcel in the county. To accomplish this function, each county must develop and implement a comprehensive assessment plan agreed upon by the county assessor, county commission, and the STC. Included in the comprehensive assessment plan are a statement, a budget, and a detailed timeline of how the plan will be implemented. The plan begins in the even numbered year and frames the tax day (January 1st), providing enough time before and after tax day to gather market information, review properties, determine market tendencies, and adjust assessments accordingly. The STC reimburses each county for about half of their assessment costs provided that the county complies with the plan it had developed.⁸

Once each county's assessment plan is approved, the county assessor is responsible for implementing the plan. The STC's Technical Assistance Section performs routine visits to assist the counties and determine if each county is in compliance with their assessment plan. If the STC finds that a county is not in compliance with their assessment plan, the state can withhold the reimbursement funds until the matter is resolved. The STC may also issue compliance orders to county assessors to enforce the law and ensure uniform treatment of property throughout the state.⁹

To make certain that the county assessors are performing quality assessments and to determine the local assessment levels, the STC conducts a ratio study, specifically an appraisal ratio study. In this appraisal ratio study, thirty-five to fifty parcels are randomly selected within each subclass of property. The STC staff appraisers gather market costs, market sales data, and market rental information in the county and use the data to

establish values for each property. Commission appraiser supervisors check to see if the appraisal is in compliance with standards. The final values of the parcels are then compared to those of the county assessor. From that mathematical equation, a “ratio” is established.¹⁰

Ratio Studies and Statistics

In testimony from a committee hearing conducted on March 13, the State Tax Commission provided an explanation of ratio studies and their subsequent uses. Included with the explanation was a description of the various statistical techniques employed in ratio study analysis. Because the ratio studies are one of the cornerstones of the assessment process and one of the primary responsibilities of the State Tax Commission, the written testimony from the State Tax Commission regarding the ratio studies they conduct is included with the report as a part of the appendix.

Property Tax Relief for Senior Citizens and Disabled Citizens

Two options are available to qualifying senior citizens and disabled persons who are subject to steep increases in their property values. The first program, the Missouri Property Tax Credit, allows senior citizens and disabled persons on limited incomes to qualify for refunds or income tax credits based upon property taxes paid or rent paid on their residences. The “rent” includes money paid for a home, a room in a nursing home, an apartment, or a mobile home unit. This law provides the eligible taxpayer with indirect property tax relief, but many people are unaware that this assistance is available. To qualify for the tax credit, an individual or an individual’s spouse must either:

1. a. Be sixty-five years of age as of December 31st of the tax year OR
b. Be 100% disabled or a disabled veteran OR
c. Be sixty years of age or older on or before December 31st of the tax year and
have received surviving social security benefits; and
2. Have a household income if married filing jointly of \$27,000 or less, or
\$25,000 if filing as a single taxpayer separate and;
3. Have paid property tax or rent for the tax year in question on the primary residence.

The second program, the Homestead Preservation Act, allows qualified senior citizens or 100% disabled individuals to apply for a credit on their real property tax liability if they experience an increase in property tax liability of more than 2.5% in a non-reassessment year or 5% in a reassessment year. Pending legislative appropriation, the credit would be equal to the amount that exceeds the 2.5% or 5% increase in taxes. If funding for the credit should be less than 100%, the credit will be a flat statewide percentage based on the appropriated amount. This credit will be applied against the taxes for the following year. In order to qualify for the credit, an individual must:

1. Be age 65 years of age or older (if married, one spouse must be at least 65 or older and the other at least 60) or be 100% disabled; AND
2. Have a federal adjusted gross income of no more than \$70,000 for the year; AND
3. Have paid all real estate taxes for the current year and the previous two years;
AND
4. Own and occupy the property (home and up to five acres).¹¹

Problems with the Assessment Program¹²

1. Lack of Sales Data

One of the ideas repeated throughout the testimony was the need for more sales data. The assessor, utilizing the market approach discussed earlier, can then use the sales data to assess other properties in the area or use the data as a comparison to assessments already conducted. Increasing the amount of sales data was recommended by several individuals who testified before the committee.¹³

Additional testimony proposed providing additional funding to the STC for such an endeavor and urged the committee and General Assembly to appropriate money for the task as soon as possible. Under the proposal, the sales data obtained would remain confidential. In addition, the witness suggested the General Assembly allow the STC to enter into agreements with non-governmental entities in order to obtain and use proprietary information without the information being subject to the sunshine law.¹⁴

2. Computer Software

Another problem reported by witnesses who testified was the computer software used by assessors across the state. Testimony suggested that the CAMA software used currently requires much maintenance, high labor effort, and is not uniform throughout Missouri (different counties use different types of CAMA software).¹⁵ Further testimony suggested an advisory committee (discussed later) be assigned the task of both choosing and implementing a system.¹⁶

3. Ratio Studies

As stated earlier, one of the duties of the State Tax Commission is to ensure that assessments are equitable both between counties and within counties. To ensure this happens, the STC conducts an appraisal ratio study. They randomly choose between thirty-five and fifty parcels within each subclass of each county and appraise each parcel to make sure that the assessors are accurately appraising the properties. From their data, they form a ratio for each county. The appraisal ratio study has both strengths and weaknesses.

Strengths:

1. Each parcel within the county has an equal chance to be chosen and appraised by the STC.
2. The study uses all three appraisal techniques: cost, income, and market approaches.
3. Established principles are used to formulate value estimations based on unbiased analysis of the market.
4. Commercial real estate is analyzed on a property-by-property basis by a trained and experienced appraiser. Physical, functional, and external factors that affect the property are observed. Non-realty items can be identified and removed where appropriate.
5. An appraiser who is knowledgeable of soils, topography, crop yields, and productivity value procedures must visit each agricultural property to conduct an inspection.
6. The integrity of the study has withstood legal challenges.

Weaknesses:

1. The study is labor and cost intensive. Over 10,000 individual appraisals must be conducted in a two-year assessment cycle.
2. Final estimation of value is based on the experience and knowledge of the appraiser (if there is a lack of market data).
3. The study could be viewed as subjective if the standards of appraisal methodologies are not adhered for each appraisal.
4. Two reasonable and experienced appraisers can disagree on the assessment after analyzing the same set of data.¹⁷

However, testimony from numerous witnesses questioned the accuracy of the appraisal studies performed by the STC. A study conducted by the Missouri Growth Association and the Public Policy Research Center at UMSL concluded that two out of three appraisals showed substantial differences in two out of the three assessment jurisdictions.¹⁸

Besides the appraisal ratio study that the STC implements, there are two more options available to the Commission: the sales ratio study and the appraisal ratio/sales ratio hybrid. The sales ratio study is currently employed by county assessors to compare the new assessments with market conditions before values are finalized. The studies conducted by the assessors are submitted to the STC for review by the technical assistance staff. The sales are gathered and verified to be arm's length transactions and not to include personal property, financing incentives, or other factors that might skew their usefulness as market indicators. The verified sales are then time adjusted to the tax

date and compared against the jurisdiction's property tax assessments. The study has strengths and weaknesses.

Strengths:

1. The study is generally objective in that arms-length transaction sales are used to determine the level of assessment.
2. The study is fairly easy to develop and is less time consuming than the other two ratio studies mentioned.
3. The study can be conducted with limited resources.
4. This type of study is a valuable tool for use by local assessment officials where statistical validity and population representation are not compulsory.

Weaknesses:

1. The entire population is not being tested. Only properties that have sold are used in the study. As such, statistical inferences are developed regarding the population, but the subset is not representative of that population.
2. A limited number of sales leads to extreme bias and does not reflect the true level of assessment or the quality of the assessment program.
3. The study encourages "sales chasing" by local assessment officials. Consequently, spot reassessment creates disparate treatment of like property that facilitated court-mandated statewide reassessment.
4. Sales in rapidly growing areas could influence the statistical inferences developed from a study, thus causing a bias and an inaccurate reflection of the true level of assessment of the whole class of properties within the population being studied.

5. Because of the complexities of commercial real estate, a sales ratio study is not useful. Commercial real estate must be analyzed on a property-by-property basis due to the myriad of physical and functional differences. There are many factors that may be reflected in the nominal selling price, which are not assessed as real estate. For example, such items as going concern value, franchise values, financing terms, furniture and fixtures, and personal property limit the use of sales ratios applied to commercial real estate assessments.
6. Sales ratio studies are not applicable to the agricultural subclass. Since agricultural land is assessed by its productivity value, only the appraisal ratio method is appropriate.¹⁹

The appraisal ratio/sales ratio hybrid is the type of ratio study that the STC would like to implement. In this ratio study, a statistically validated number of sales is chosen within each property type. If an adequate number of sales is not available, then appraisals are substituted to fulfill statistical requirements. The STC is recommending this type of ratio study for all counties that have sales data disclosure requirements. The study has both strengths and weaknesses as well.

Strengths:

1. The study mitigates the disadvantages of using the strict appraisal or strict sales system alone.
2. The study reduces the number of appraisals required in a strict appraisal study, and as such, reduces the resource requirements.
3. Stratifying the population ensures full representation of all taxable tangible real property.

4. The study diminishes the debate regarding final estimates of value.

Weaknesses:

1. Statistical procedures and software must be developed to accurately stratify the population that is indigenous to each particular county.
2. The study is dependent on the number of valid sales that are readily available. Consequently, any jurisdiction without adequate sales data would be problematic.²⁰

One witness questioned whether the STC should conduct the equalization study. It was suggested that the equalization study should be performed by an independent entity whether it be the State Auditor, another state agency, a university, or a private company.²¹

4. Budget Constraints

Testimony from witnesses also suggested that the State Tax Commission has been inadequately funded; over the past three years, the State Tax Commission's budget has been cut by 30%. The testimony noted the budget cuts have resulted in fewer seminars and less training offered to assessors' staffs. Recommendations included appropriations for a statistical analyst that would research and check for inequitable intracounty or intercounty assessments.²² Further testimony suggested the need for increased funding and resources for county assessors and their staffs by increasing the per parcel appropriation that assessors receive.²³ The increased per parcel allocation would increase personnel capabilities to perform on-site reviews and could provide GIS digital mapping that would increase the efficiency and productivity of assessors.²⁴

5. Property Tax Statutes

Several witnesses testified to the notion that Missouri's statutes are outdated. It was suggested that the statutes do not account for advances in technology, statistics, current assessment standards, and are often in conflict with the requirements of biannual assessment and multiple subclasses of real property.²⁵ Suggestions to remedy this problem include a systematic review of the laws and practices regarding the property tax. Specifically, one witness proposed the STC focus on intracounty equalization in the odd years followed by a ratio study which provides evidence for inter-county equalization, and complete the process with inter-county equalization in the even years. Furthermore, testimony indicated that statutes are more specific in regards to both the adequacy of assessment results and how intracounty and intercounty equalization should be attained.²⁶

6. Litigation

Some witnesses noted that one problem that the assessment process faces is the perceived costly and time-consuming litigation against the State Tax Commission. While lawsuits are an inevitable part of the separation of powers, testimony suggested that lawsuits challenging the State Tax Commission's orders should be filed either in Cole County, where the courts are accustomed to state agencies being sued, or a neutral county circuit court.²⁷

7. State Tax Commission

One witness testified extensively regarding the administration of the State Tax Commission.²⁸

The witness suggested the STC hear fewer cases and issue rules and supervisory orders to establish more uniformity and mandatory precedence in the process.

The witness proposed that a separate organizational entity conduct an evaluation of how well the STC performs its supervision of assessors and boards of equalization.

The witness proposed a separation of the administrative hearing function of the STC from the STC itself. Under the witness's plan, a separate administrative hearing department would hear the cases instead of the Commission's staff lawyers.

The witness suggested a review of how reimbursement of a county's assessment costs is to be administered.

The witness suggested the STC increase the monitoring of boards' of equalization proceedings.

The witness proposed the idea of Missouri having 4 to 6 assessment districts as well. Under the plan, he explained the economy of scale would enable each district to acquire the appropriate technology and staff expertise that is lacking in many assessors' offices. Further expounding on his plan, he commented that if the change over were to occur in 2008 or 2010, assessors and assessment personnel could plan for the change without suffering a sudden disruption. One organization supported this idea on a smaller scale. Citing limited expertise and experience with commercial appraisals by some counties, the association expressed a need for regional commercial appraisers which would serve a specified region.²⁹

Testimony from the witness also expressed a need for a more thorough review of the appeals process indicating that it needs clarification, standardization, and greater accountability.³⁰

Another witness suggested hiring an executive director for the State Tax Commission. Under this proposal, the Commission itself would retain the authority to

accept or deny recommendations from the executive staff and also act as an arbiter for disputes between the executive staff and the counties. The executive director would be responsible for executing the rest of the duties prescribed to the STC.³¹

8. *Rollback laws*

According to one witness's testimony, the statutes regarding rollbacks leave many questions and possibly result in misinterpretations. He cited that a lawyer familiar with the statute claims that the common interpretation of the statutes is incorrect.³² A memo produced by Missouri Senate Research agrees with this claim. The common interpretation is that taxing jurisdictions need to rollback their tax rates only if their rate exceeds their tax ceilings.³³

A more thorough examination concludes that the rollbacks can be unfair to certain types of property. A county can have one type of property increase in value and another type of property decrease in value. Currently, the rollback rate is determined by the aggregate increase in property taxes collected of the different types of property. This means that the residential class of property could be paying more than their fair share of taxes while commercial property pays less than their fair share or vice-versa. A suggestion to deal with this problem is to have different rollback rates for the different types of property.³⁴

Testimony suggested that property owners do not know the rates that they are being charged. To resolve this problem, the testimony recommended that taxing jurisdictions be required to post their tax rates and tax ceilings in a place accessible to the public.³⁵ This suggestion was echoed developed by further testimony which recommended that political subdivisions inform the public of the previous and current

year's tax rate, new construction growth, assessed valuation of the different subclasses of real property, and the rise in the general price level shortly before they set their tax rate for the following year.³⁶

Additional testimony suggested that Missouri conduct a study of the effectiveness of the rollback laws and then study policy alternatives that would remedy any of the problems found as a result of the study.³⁷

9. Senior Citizens

One witness testified that senior citizens on fixed incomes cannot afford the property tax levied on them every two years. One suggestion to deal with this issue is to freeze property tax payments from senior citizens until either death or until the property is sold. The property tax payments would then be collected after the sale of the property.³⁸ It should be noted however that the effects of the Homestead Preservation Act have not yet been realized. It may be prudent to wait to see if the act helps with this problem.

10. Property Taxes Are Too Burdensome

One witness believed that property taxes are not a good source of revenue. In addition to eliminating the property tax, the witness also suggested that Missouri adopt California's Proposition 13 of 1978, where homeowners pay a tax on the purchase price of their home. Furthermore, the witness suggested that reassessment should be capped every year at 2% or to the realized growth of the Consumer Price Index.³⁹

11. Elimination of Personal Property Tax

One witness testified that Missouri should eliminate the personal property tax and only tax real property. He testified that large companies' personal property depreciated,

while small “mom and pop” stores paid the full amount of their personal property taxes. Overall, the witness stressed simplification of the property tax system.⁴⁰ An association testified that personal property taxes do take a disproportionate amount of assessors’ time and resources.⁴¹

12. Building Permits

One problem that was addressed during committee meetings was the knowledge of new construction in an area. In order to keep track of this, testimony suggested that Missouri require that counties issue building permits for new construction.⁴² An assessor in a city that has building permits commented that the permits are useful in reassessment as well because they let the assessor know of the specific amenities of a parcel of property.⁴³

13. Shifting Burdens

While the property tax has consistently provided the state with a reliable source of revenue, one witness suggests that the burden among the different subclasses of real property taxed has shifted. Citing data from 1984 through 2005, residential property has experienced an increase of the property tax burden from 38% in 1984 to 48% of the total burden in 2005. At the same time, the agricultural burden has decreased significantly from 12% in 1984 to just 3% in 2005. While the witness did not provide solid evidence to the reasons why such a shift in the burden has occurred, he did say that this problem needs examination.

14. I.A.A.O. Compliance

One witness suggested that Missouri adopt the regulations setting compliance standards for level of assessment, uniformity, and vertical equity.⁴⁴

15. Advisory Committee

Testimony suggested that an advisory committee consisting of representatives of assessors, collectors, county clerks, county courts, county prosecutors, the Missouri General Assembly, and the STC reach a consensus recommendation that will assure effective enforcement while providing counties with reasonable due process.

Further testimony suggested another advisory committee whose duty would be the continuing study of the property tax practices. This committee would consist of a representative of local clerks, collectors, assessors, and recorders, state executive representatives of the STC, Auditor, GIS, Attorney General, and Governor, and state legislative officials to represent appropriations, tax policy, and local government.⁴⁵

16. Grants

Citing a need for positive reinforcement in the assessment process, testimony suggested Missouri allocate money for a pool of grants to be disbursed to counties based on merit and need.⁴⁶

17. Standard Appraisal System

Representatives from Vanguard Appraisals, Inc. testified regarding the benefits of having a standardized appraisal manual such as one developed for the state of Iowa.⁴⁷

Research Conducted by the Committee

Following up from the report submitted to the committee by one of the witnesses in December, the committee contacted states listed in the report regarding the collection

of sales data as well as those states that are in the process of implementing a uniform computer software system.

Sales Information

Alabama:

For residential properties, Alabama relies upon the multiple listing services in local areas. An agreement is reached between realtor associations and local governments where they would trade information: the government provides tax records and property information (such as square footage) in exchange for sales information. Usually, however, smaller counties do not have MLS data available. To substitute, the counties review recorded deeds in the timeframe being studied and check for arms length transactions to make sure the data is relative to the market. For commercial property, an agreement is reached with commercial appraisers where the state provides them with records and information they have for commercial data from the appraisers themselves. For residential property, those homeowners 65 or older or disabled can apply for a homestead tax credit (available to those who own residential property). Alabama asks that they sign an affidavit regarding the most recent sales information available in exchange for the tax credit.

Contact: Jane Mordis, (334) 832-1303

Alaska:

Sales data collection is the responsibility of the local counties. Local counties will send out two letters, one to the buyer of the property and one to the seller of the property. If there is no compliance, then one follow-up letter is sent.

Contact: Steve Vansant, steve_vansant@commerce.state.ak.us, (907) 269-4605

Idaho:

All of the ratio studies are conducted by the individual counties. Some of the counties have agreements with local boards of realtors and some look at the deeds to determine whether or not the sale is an arm's length transaction and collect contact information to send out a letter. Returns on sales information by letter has about 40-50% success rate. Idaho has a strict equalization range (within 5% for school funding and 10% for local financing); however, Idaho works with each local county to get the equalization correct. Initially, many of the counties flunk their school funding equalization requirement percentages.

Contact: Alan Dornfest, adornfest@tax.idaho.gov, (208) 334-7742

Mississippi:

Mississippi assumes responsibility for gathering sales information. The state sends out one letter (no follow-up) to both the guarantor and guarantee with questions that determine if it is an arms length transaction. The letter has about a 50-55% success rate. Sometimes the individual counties (which are required to have a sales file) have

more information in which case that data is used. As of 1998, Mississippi conducts an equalization study every four years.

Contact: Rich Minton, (601) 923-7612

Utah:

The state relies on recorded deeds for the year to see which sales are to be included in the annual sales ratio study. The state of Utah assumes responsibility and sends out a questionnaire to both the buyer and seller of the property to obtain sales data. Should no answer be obtained, then one follow-up letter is issued. When available, data is used from local multiple listing services. Every effort is made to ensure that the transactions being used are arms length transactions and reflective of the market. In order for a sale to be included in the study, it must meet three listed requirements and then can be eliminated if it meets any one of the 14 listed stipulations.

Contact: Salt Lake County- Tom Leech, (801) 468-3065

Iron County- Ann Gurr, (435) 477-8312

Uniform Computer Software System

Kansas:

Kansas recently signed a contract in 2003 with Cole Layer Trumble (CLT, currently owned by Tyler Technologies) to replace their old uniform software system. They looked at 10 or more different systems and decided that CLT offered the most

versatility. Kansas is the first state to take full advantage of the CLT software. To implement, they installed the software in 10 “data counties” to learn about the system and work out all of the kinks. The return process, however, is taking longer than expected which will push their full implementation target date back one year. Kansas has plans to install the system in 25 or 26 counties a year hoping for a 2009/2010 statewide software uniformity target. It should be noted that Kansas does have a sales disclosure law which allows them to take full advantage of the features available in the CLT software. After asking whether a state could take full advantage of the software without increased sales data, the Kansas representative said he thought not.

Contact: Charlie Sowell (785) 296-4689

New Jersey:

New Jersey reported recently adopting a new software system also from Cole Layer Trumble. Currently, the web-based system is being tested in three pilot counties. Once the pilot study is finished (projected to be in 2008), New Jersey has plans to implement the system in six counties per year for three years (a total of 21 counties). After asking if a state without adequate sales data could take full advantage of the software’s features, the response was no, sales data was needed to fully utilize the system’s features.

Contact: Mark Gesuldi, (609) 984-3268

Maryland:

Maryland is currently reviewing proposals for a uniform software system. They attended the I.A.A.O. conference this year where seven different vendors were proposing systems. They are awaiting money from the executive branch to proceed. The state takes full responsibility for assessment functions. They have an assessor and state office in each of their jurisdictions. The data from those jurisdictions is reported to one central facility. The new software system (they plan) will allow them to access information about any of the jurisdictions from any of the jurisdictions.

Contact: R. T. Mills, (410) 228-3380 ext. 112, rtmills@dat.state.md.us

Agricultural Use Values

In addition, research was conducted regarding how agricultural use-values are determined. The following is a brief summary of how the state arrives at such values.

Agricultural property is different than the other two subclasses of property- residential and commercial. While residential property is taxed based on the market value of the property and commercial property is taxed based on the income that is generated from the business, agricultural property is taxed based on the land's potential for generating revenue.

Missouri has an ongoing contract with the University of Missouri's Agricultural Economics Department. Every two years, the department conducts a study which recommends use-values for the eight different grades of agricultural land. The study

divides the eight grades into two categories: fertile land (which is suitable for growing crops) and pasture land (which is more suited for grazing).

The professor who currently conducts the study, Kevin Moore of the Department of Agricultural Economics at University of Missouri- Columbia, noted in the 1996 study that the methodology developed in 1982 for arriving at the use-values, created by the department, may not accurately depict the actual use-values of agricultural land.⁴⁸ Citing 17 reasons for why the 1982 methodology was not representative of 1996 agricultural use-values, Moore set forth an alternative method for arriving at the use-values.⁴⁹ The alternative method is based on information that is available to anyone; it utilizes the crop and pasture rental rates published in Missouri Farm Facts as well as the capitalization rate published in Agricultural Finance Databook.⁵⁰

The subject of agricultural use values has been a focus of the University of Missouri- St. Louis's Public Policy Research Center (PPRC). In a report presented to the State Tax Commission on December 9, 2005, the PPRC delves into the history of the agricultural use-values in Missouri, citing the bi-annual studies from UM-Columbia's Department of Agricultural Economics and past actions and promulgations set forth by the State Tax Commission.

While the new method of calculating agricultural use-values may be simpler and more accessible to the public, there is a sense that the crop and pasture rental rates are representative of neither productive use of the land nor farm income. During the 93rd General Assembly, 2nd regular session, the 2007 budget includes a line item in the State Tax Commission's appropriations for \$25,000 to employ the Department of Agricultural Economics at the University of Missouri-Columbia to develop a new method for

calculating agricultural use-values. The effort will focus on creating a methodology that is accurate, certain, and reliable.

The actual process for implementing the agricultural use values may need to be examined as well. The way the process currently works is that the State Tax Commission receives the study conducted by UM-Columbia in October of every odd number year. The STC then hears testimony (usually in December of the same year) from those in the farming community to get a sense of the recent farming conditions. The Food and Agriculture Policy Research Institute (FAPRI), also an extension of the University of Missouri-Columbia, presents a report of the state of the farming community in Missouri.⁵¹

From this information and testimony, the STC promulgates a use-value for each grade of land by December 31 of the same year regarding the productive use of agricultural land. This rule can either be accepted implicitly or rejected explicitly by the General Assembly in the form of a concurrent resolution within sixty calendar days of the commencement of the regular session. If the General Assembly rejects the rule by concurrent resolution, then the use-values revert back to the use-values in place before the values were promulgated.⁵²

Recommendations

1. Sales Information

According to the I.A.A.O., “sales prices provide the only objective estimates of market values and under normal circumstances should provide good indicators of market value.”⁵³ Because of the importance of sales in determining market values, the

committee recommends that the State Tax Commission, in cooperation with the assessors, acquire as much voluntary sales information as possible by obtaining the information through a uniform letter which asks the buyer/seller to voluntarily disclose the purchase price of a parcel of property. The STC should design and implement a pilot study involving several counties which should provide evidence of how to collect voluntary sales information from the entire state in the future.

2. Ratio Studies

In addition, it is important for the State Tax Commission to use the sales information they collect. Adopting an appraisal-sales hybrid ratio study as they suggested in their testimony would provide the most efficient and reliable ratio study possible. The STC would realize savings in manpower by not having to appraise all of the properties in their samples. With objective market indicators, the ratio studies conducted by the STC would provide more reliable information to ensure counties are assessing at market value.

One of the major problems that the committee encountered in its investigative efforts is the disparity in size and resources of the various counties and one city in Missouri. Assessment in St. Louis County is far different than assessment in Worth County. The disparity lies in the size, the method of assessment, the resources at hand and the availability of information. As a result, the STC should adopt a sales ratio study for the three counties and city (St. Louis County, St. Charles County, Jackson County, and St. Louis City) with a sales disclosure law. It is a waste of time and resources for the STC to conduct appraisal ratio studies if objective market information is readily available.

3. Education of Assessors

One of the priorities of the Missouri Assessors Association is making sure that all of its members and their staffs have the education necessary to perform their jobs well. One of the provisions of Senate Bill 1140 and its House companion, HB 1996, was to bring the responsibility of coordinating the education of assessors under the supervision of the State Tax Commission; as this idea is developed and implemented, a special designation for education attainment regarding mass appraisal could be established. Neither of the bills came to fruition in the 2006 legislative session; however, the committee echoes its support of this provision, possibly for legislation in 2007.

4. Transparency in Rollback Laws

Another part of SB 1140 and HB 1996 was a provision that required political subdivisions to publish how much more revenue they would receive as a result of the recommended tax rate both as a percentage and dollar value in comparison with the previous fiscal year. Political subdivisions are already required to publish “the assessed valuation by category of real, personal and other tangible property in the political subdivision for the fiscal year for which the tax is to be levied as provided by subsection 3 of section 137.245, RSMo, the assessed valuation by category of real, personal and other tangible property in the political subdivision for the preceding taxable year, for each rate to be levied the amount of revenue required to be provided from the property tax as set forth in the annual budget adopted as provided by this chapter, and the tax rates proposed to be set for the various purposes of taxation.”⁵⁴ This provision is intended to

provide more information to taxpayers, ensuring that they have the information necessary to make informed decisions about the operations of their respective political subdivisions.

5. Joint Committee on Tax Policy and the Reviewing of Ratio Studies

While reviewing ratio studies is within the current scope of the Joint Committee on Tax Policy, it is not specifically mentioned. Another provision of SB 1140 and HB 1996 was to have the Joint Committee on Tax Policy study the ratio studies published by the State Tax Commission. With term limits it is important that the reviewing of ratio studies becomes a permanent responsibility of the committee. Ratio studies are the tools used by the State Tax Commission to equalize assessments both at an intracounty level and an intercounty level. They provide a wealth of information that enables the STC to target specific problem areas in counties. It is important for the committee to continually study this assessment tool to not only gain a better understanding of the assessment process, but also to develop an understanding of the legislative, budgetary, and regulatory needs of both the State Tax Commission and of assessors throughout the state.

6. Agricultural Use-Values

The committee will track the progress of the new methodology to be created by the State Tax Commission and the UM-Columbia Department of Agricultural Economics. Also, the committee recommends that the State Tax Commission include a report along with their promulgation of agricultural use-values which includes a summary of the testimony heard, the information they have received regarding agricultural use-values as well as the reasoning behind their recommendation. The committee will also examine section 137.021 RSMo and make recommendations regarding the statute to the General Assembly.

7. Outdated Statutes

The committee will work with the State Tax Commission to make recommendations to the General Assembly for the 2007 legislative session regarding the outdated language in the statutes relating to property assessment and taxation.

8. Standard Appraisal System

One of the provisions of SB 1140 and HB 1996 called for assessors to implement a standardized appraisal system across the state; certain exemptions would be granted for those counties that have a system which exceed the qualifications imposed by the provision. A statewide standardized appraisal system would allow the STC to aid counties with technical assistance. Currently, counties throughout Missouri use nine different cost appraisal systems; essentially, this means that the State Tax Commission must develop an expertise of the nine different appraisal systems and be able assist counties as well as ensure that properties are assessed according to their true value in money (market value) as required by the Missouri Constitution. A state-wide standardized appraisal system would ensure uniformity in the assessment process as well as save the time and resources of the State Tax Commission.

9. Statistical Analyst

Following the testimony regarding ratio studies and statistical analysis provided by the State Tax Commission as well as the testimony which recommended a statistician for the STC, the committee recommends that the STC hire a statistics analyst to assist in the development of the ratio studies conducted by the STC. The FY 2007 budget includes an appropriation of \$40,000 for the position.

Notes

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- ¹ The State Tax Commission provided this information in their July 2005 testimony.
- ² RSMo Sections 137.016, 137.017.
- ³ RSMo Section 137.115 subsection 5
- ⁴ Taken from the State Tax Commission's *Property Reassessment and Taxation* guide.
- ⁵ Information provided by the State Tax Commission's *Property Reassessment and Taxation* guide.
- ⁶ Missouri Constitution, Article X, Section 22
- ⁷ The STC's *Property Reassessment and Taxation* guide and 12 CSR 30-3.005 provided this information.
- ⁸ RSMo Sections 137.115, 137.750.
- ⁹ RSMo Section 138.410
- ¹⁰ STC testimony on July 14, 2005 provided this information.
- ¹¹ Information obtained from the STC's *Property Reassessment and Taxation* guide and RSMo Section 137.106.
- ¹² An outline of all the testimony regarding property assessment and taxation is included in the appendix as Appendix I.
- ¹³ Testimony in favor of increasing the amount of sales data came from the State Tax Commission, the Missouri State Assessors Association, Steve Gardner of the Public Policy Research Center at UMSL, Sandy Rothschild of the Missouri Growth Association, and Ed Bushmeyer- Assessor of the City of St. Louis.
- ¹⁴ Steve Gardner provided this suggestion in his December 5, 2005 testimony.
- ¹⁵ This problem was reported by the Missouri Assessors Association and Steve Gardner of the Public Policy Research Center at UMSL.
- ¹⁶ Steve Gardner solely suggested this idea.
- ¹⁷ This information was obtained from the STC's July 2005 written testimony
- ¹⁸ Sandy Rothschild and Steve Gardner discussed this problem in their testimony.
- ¹⁹ Taken from STC written testimony, July 2005.
- ²⁰ Information regarding ratio studies came from State Tax Commission testimony on July 14, 2005.
- ²¹ This problem is noted by Steve Gardner as well.
- ²² Testimony in support of this statement came from Steve Gardner of the Public Policy Research Center at UMSL.
- ²³ Testimony came from the Missouri State Assessors Association and Chris Straub of the Missouri School Boards Association.
- ²⁴ The Missouri State Assessors Association and Steve Gardner supported these suggestions.
- ²⁵ These specific recommendations came from Steve Gardner of the Public Policy Research Center at UMSL, and were echoed by Sandy Rothschild.
- ²⁶ Steve Gardner and Sandy Rothschild proposed these recommendations respectively.
- ²⁷ This litigation problem was discussed by both the STC and Sandy Rothschild, while the suggestion was Sandy Rothschild's alone.
- ²⁸ All of the testimony in this section was provided by Sandy Rothschild of the Missouri Growth Association.
- ²⁹ The Missouri State Assessors Association provided support for this idea.
- ³⁰ Sandy Rothschild offered this suggestion.
- ³¹ Steve Gardner made this suggestion in his December 5, 2005 testimony.
- ³² Testimony regarding rollbacks was provided by Steve Gardner. The idea of enforcing rollback laws to offset increases in assessments was presented in written testimony in December by the Missouri State Assessors Association.
- ³³ The memo, written by Senate Staff Attorney, Jason Zamkus, focused specifically on the interpretation of the rollback laws. A copy of this memo is included in the appendix as Appendix C.
- ³⁴ Otto Fajen of the Missouri National Education Association supported this idea.
- ³⁵ Liz Walker of Kirkwood Public Library provided this suggestion.

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- ³⁶ Chris Straub recommended this idea.
- ³⁷ Steve Gardner suggested this recommendation in his December 5, 2005 testimony.
- ³⁸ JoAnn Rudroft provided this recommendation.
- ³⁹ Property owner Ronald E. Levy provided this testimony.
- ⁴⁰ Carl Sandstedt of St. Charles City-County Library District provided this testimony.
- ⁴¹ The Missouri State Assessors Association provided this testimony.
- ⁴² The Missouri State Assessors Association testified in favor of this idea.
- ⁴³ Ed Bushmeyer, the assessor of the city of St. Louis, provided this testimony.
- ⁴⁴ Steve Gardner suggested this idea on December 5.
- ⁴⁵ This suggestion was provided by Steve Gardner.
- ⁴⁶ Steve Gardner provided this suggestion.
- ⁴⁷ Robert Kocer and Robert Ehler presented this idea.
- ⁴⁸ Moore, Kevin C. *Updating Use-Values of Missouri Agricultural Land and Developing and Testing an Alternative Methodology for This Procedure*. October, 1996. p. 3.
- ⁴⁹ A copy of the 1996 UM- Columbia Agricultural Use-Values report is included as Appendix D as well as a copy of the 2005 UM- Columbia Agricultural Use- Values report which is Appendix E.
- ⁵⁰ Full details of the alternative (current) method can be found on page 6 of the 1996 report.
- ⁵¹ A copy of this report, the FAPRI Report from December 2005, is also included in the appendix as Appendix G.
- ⁵² This information was gathered from Section 137.021 RSMo. A copy of this statute is also included in the appendix as Appendix H.
- ⁵³ I.A.A.O. *Standard on Ratio Studies*, 2005. p.2.
- ⁵⁴ Section 67.110, Subsection 2 of Missouri Revised Statutes